

PROPOSED RESOLUTION

Resolution W-5024
DWA

AGENDA ID #13689 (Rev. 1)
ITEM #8

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5024
March 12, 2015

RESOLUTION

**(RES. W-5024), ROLLING GREEN UTILITIES, INC. -
WATER UTILITY. ORDER AUTHORIZING A GENERAL
RATE INCREASE PRODUCING ADDITIONAL ANNUAL
REVENUE OF \$51,788, or 50.4%, IN TEST YEAR 2015.**

SUMMARY

By Advice Letter No. 34-W, filed on May 23, 2013, Rolling Green Utilities, Inc. (Rolling Green) water utility seeks an increase in its rates for water service to recover increased operating expenses and plant investment.

For Test Year 2015, this resolution grants Rolling Green an increase in gross annual revenues of \$51,788 or 50.4%, which is estimated to provide a Return on Margin of 21.69%.

BACKGROUND

Rolling Green is a Class D water utility that has requested authority under General Order 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code Section No. 454 to increase its water rates by \$58,780, or 60.45% for Test Year (TY) 2013 to produce a Return on Margin (ROM) of 22.08%.

The last general rate increase was granted on June 8, 2000, pursuant to Resolution No. W-4199, which authorized a rate increase of \$3,497, or 5.14%, resulting in a rate of return of 13.5% for TY 1999. The present rates became effective on May 28, 2013, pursuant to the approval of Advice letter No. 33-W, which granted a Consumer Price Index (CPI) increase of \$1,384 or 1.7%.

Rolling Green is a class D water and sewer utility. It serves approximately 285 customers with both metered water service and flat rate sewer service, in the Rolling Green Terrace Subdivision near Big Pine, Inyo County. Water and sewer accounts are maintained and accounted for separately.

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The water system includes; (1) three active wells, each with a depth of 135 feet, 6-inch diameter casings, and approximately 400 gallons per minute original pumping capacity, 5/8 X 3/4-inch, 2-inch, and 1-inch connections, (2) a single 5,000-gallon steel pressure vessel to maintain system pressure, (3) pipelines, consisting of 3,000 feet of 2 1/4-inch - 3 1/4-inch, 3,000 feet of 4-inch and 15,520 feet of 6-inch for a total of 21,520 feet, a combination of plastic and asbestos cement, and (4) a single parcel of land consisting of approximately a third of an acre, where the wells, shop building, and the pressure tank are located.

Rolling Green's water supply is not required to be treated as it meets all applicable water quality requirements set forth by the State Water Resources Control Board (SWRCB), Division of Drinking Water.

NOTICE AND PROTESTS

The Division of Water and Audits (Division) conducted a public participation hearing in Rolling Green's service territory on October 3, 2013. The meeting was attended by ten customers. Concerns raised include the percentage increase requested, the billing format used, and phone response times. Rolling Green has updated its billing software to make bills easier to read.

DISCUSSION

The Division made an independent analysis of Rolling Green's rate increase request. Appendix A shows Rolling Green's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in Rolling Green's and the Division's estimates in operating revenues, expenses, and rate base. Rolling Green was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

Division staff reviewed operating revenues and expenses including employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division staff verified the operating expenses by reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

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For 2015, the Division has included \$37,713 in plant additions for the installation of variable speed drives. These new controllers for the wells will replace pressure tanks which have reached the end of their useful lives.

As 2013 and 2014 have both elapsed, this resolution grants Rolling Green a 2015 TY by escalating Division estimated 2013 expenses by factors provided by the Office of Ratepayer Advocates (ORA) in their memorandum dated December 15, 2014. The ratebase and the adopted quantities contained in Appendix D are also updated to reflect TY 2015.

In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the operating ratio method of ratemaking as an alternative to the rate of return method on rate base for Class C and D utilities. The operating ratio, or rate of margin, method calculates a margin over operating and maintenance expenses, rather than focusing on return on net investment. Ordering Paragraph 8 of D.92-03-092 states:

Division is directed to calculate rates using both return-on-rate base and operating ratio methods of ratemaking for Class C and Class D water companies requesting new rates and to recommend to the Commission the rate method that produces the higher results.

Rolling Green is a Class D water utility. The Division has conducted an analysis of the financial market changes with the last year and the high operational risks faced by Class D water companies and has determined that the appropriate range for Return on Equity (ROE) is 10.8% - 11.8% and a Return of Margin of 21.69%.

Using the rate of margin method with a return on margin of 21.69%, Division's estimate of Rolling Green's revenue requirement is \$154,590. Using an ROE of 11.8%, the Division estimates a revenue requirement of \$129,700. The Division recommends the rate of margin method since it produces the higher revenue requirement.

Rolling Green's current rate structure consists of one rate schedule – Schedule No. 1, General Metered Service. At the present time, Rolling Green has 285 metered rate customers who are billed monthly. For Class D water utilities, 100% of a utility's fixed costs are typically included in the service charge. Doing so in this case would cause the quantity rate for water to fall from \$0.67 to \$0.38 per hundred cubic feet (ccf), while the monthly service charges would increase by 149% across all meter sizes. Given that California is in the fourth straight year of drought, it is imprudent to lower the per-unit

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cost of water. The Division recommends that only 60% of the utility's fixed costs be included in the service charge. Using this methodology, the service charge will increase by 49%, while the quantity charge will rise from \$0.67 to \$1.35, or 101%. Because of reduced water sales, the quantity charge for water increases by a greater percentage than the percentage increase in the revenue requirement. The Division believes that this rate design leads to a more balanced outcome that sends customers the appropriate water conservation signal.

At the Division's recommended rates for metered service, as shown in Appendix C, the average monthly bill for a ¾ inch meter using 16 CCF per month will increase from \$26.34 to \$44.85, or 70%. The adopted quantities and tax calculations are shown in Appendix D.

COMPLIANCE AND SAFETY

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the SWRCB Division of Drinking Water, the utility currently meets all applicable water quality standards.

COMMENTS

Public Utilities Code Section 311(g)(3) requires that resolutions be served on all parties and subject to a 30-day period for public review. Accordingly, this draft resolution was mailed on February 6, 2015 to all parties and interested persons. No comments were received.

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits is reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Division of Water and Audits are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division of Water and Audits are reasonable and should be adopted.

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4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Rolling Green Utilities, Inc. – Water to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. The effective date of the revised schedules shall be five days after the date of filing.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 12, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A ROLLING GREEN UTILITIES, INC. SUMMARY OF EARNINGS TEST YEAR 2015

		<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Adopted</u>
		<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Item</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
	<u>Operating Revenue</u>					
	Metered Water Sales	\$ 97,236	\$ 156,016	\$ 102,802	\$ 156,016	\$ 154,590
	Total Revenues	\$ 97,236	\$ 156,016	\$ 102,802	\$ 156,016	\$ 154,590
	<u>Operating Expenses</u>					
610	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
615	Purchased Power	\$ 12,140	\$ 12,140	\$ 12,504	\$ 12,504	\$ 12,504
618	Other Volume Related Expenses					
630	Employee Labor	\$ 13,000	\$ 13,000	\$ 13,419	\$ 13,419	\$ 13,419
640	Materials	\$ 7,500	\$ 7,500	\$ 7,725	\$ 7,725	\$ 7,725
650	Contract Work	\$ 6,500	\$ 6,500	\$ 6,695	\$ 6,695	\$ 6,695
660	Transportation Expenses	\$ 5,785	\$ 5,785	\$ 5,959	\$ 5,959	\$ 5,959
664	Other Plant Maintenance	\$ 926	\$ 926	\$ 954	\$ 954	\$ 954
670	Office Salaries	\$ 7,200	\$ 7,200	\$ 7,432	\$ 7,432	\$ 7,432
671	Management Salaries	\$ 24,000	\$ 24,000	\$ 24,774	\$ 24,774	\$ 24,774
674	Employee Benefits	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
676	Uncollectibles Expense	\$ 1,166	\$ 1,166	\$ 1,166	\$ 1,166	\$ 1,166
678	Office Services & Rentals	\$ 3,450	\$ 3,450	\$ 3,554	\$ 3,554	\$ 3,554
681	Office Supplies & Expenses	\$ 1,276	\$ 1,276	\$ 1,314	\$ 1,314	\$ 1,314
682	Professional Services	\$ 4,400	\$ 4,400	\$ 4,542	\$ 4,542	\$ 4,542
684	Insurance	\$ 5,600	\$ 5,600	\$ 5,768	\$ 5,768	\$ 5,768
688	Regulatory Commission Expense	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800
689	General Expenses	\$ 4,000	\$ 4,000	\$ 4,120	\$ 4,120	\$ 4,120
	Subtotal	\$ 108,743	\$ 108,743	\$ 111,726	\$ 111,726	\$ 111,726
	Depreciation	\$ 7,150	\$ 7,150	\$ 5,139	\$ 5,139	\$ 5,139
	Taxes other than Income	\$ 4,898	\$ 4,898	\$ 5,011	\$ 5,011	\$ 5,011
	Income Taxes	\$ 800	\$ 7,921	\$ 800	\$ 7,686	\$ 7,365
	Total Deductions	\$ 121,591	\$ 128,712	\$ 122,676	\$ 129,562	\$ 129,241
	Net Revenue	\$ (24,355)	\$ 27,304	\$ (19,874)	\$ 26,454	\$ 25,349
	<u>Rate Base</u>					
	Average Plant	\$ 228,120	\$ 228,120	\$ 209,676	\$ 209,676	\$ 209,676
	Ave. Accumulated Depreciation	\$ 162,820	\$ 162,820	\$ 168,784	\$ 168,784	\$ 168,784
	Net Plant	\$ 65,300	\$ 65,300	\$ 40,892	\$ 40,892	\$ 40,892
	<u>Less</u> Advances			\$ -	\$ -	\$ -
	Contributions			\$ -	\$ -	\$ -
	<u>Plus</u> Working Cash	\$ 9,062	\$ 9,062	\$ 9,310	\$ 9,310	\$ 9,310
	Materials & Supplies	\$ 1,000	\$ 1,000	\$ 400	\$ 400	\$ 400
	Rate Base:	\$ 75,362	\$ 75,362	\$ 50,603	\$ 50,603	\$ 50,603
	<u>Rate of Return</u>	-32.32%	36.23%	-39.27%	52.28%	50.09%
	<u>Rate of Margin</u>					21.69%

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APPENDIX B ROLLING GREEN UTILITIES INC.

Schedule No. 1 GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rolling Green Terrace and vicinity, adjacent to Highway No. 395, located approximately one mile northwest of Big Pine, Inyo County.

RATES

Quantity Rate:

All water, per 100 cu. ft.	\$1.35	(I)
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Service Charge:

Per Meter
Per Month

For 5/8 x 3/4-inch meter	\$15.55	(I)
For 3/4-inch meter	\$23.32	(I)
For 1-inch meter	\$38.87	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the monthly charge for water computed at the quantity rate.

SPECIAL CONDITIONS

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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APPENDIX C ROLLING GREEN UTILITIES, INC.

COMPARISON OF RATES

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Percent Increase</u>
Metered Water:			
For 5/8 x 3/4-inch meter	\$10.41	\$ 15.55	49%
For 3/4-inch meter	\$15.62	\$ 23.32	49%
For 1-inch meter	\$26.03	\$ 38.87	49%
Water, per hundred cu. ft.	\$0.67	\$1.35	101%

	Usage Present (ccf)	<u>Rate</u>	<u>Proposed Rate</u>	<u>\$ Increase</u>	<u>% Increase</u>
Bill Comparison:					
3/4-inch meter	0	\$15.62	\$23.32	\$7.70	49%
	10	\$22.32	\$36.78	\$14.46	65%
avg	16	\$26.34	\$44.85	\$18.51	70%
	20	\$29.02	\$50.23	\$21.21	73%
	25	\$32.37	\$56.96	\$24.59	76%

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APPENDIX D ROLLING GREEN UTILITIES, INC.

ADOPTED QUANTITIES Test Year 2015

Property Tax	\$ 3,011
Purchased Power (Electric)	
Vendor	Southern California Edison
Total Purchased Power	\$12,504
Metered Service Connections	
5/8 x 3/4 inch	0
3/4 inch	283
1 inch	<u>2</u>
	285
Rate Design;	
Fixed Costs in Service Charge	60%
Metered Water Sales	55,333 ccf
Income Tax Calculations	
Operating Revenue	\$ 154,590
Operating Expenses	111,726
Depreciation	5,011
Other Than Income Taxes	5,139
Income before State Tax	32,714
State Income Tax	2,892
Income before FIT	29,822
Federal Income Tax	4,473
Total Income Taxes	7,365

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5024 on all parties in these filings or their attorneys as shown on the attached lists.

Dated February 6, 2015, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

ROLLING GREEN UTILITIES, INC.

**ADVICE LETTER NO. 34
SERVICE LIST**

County of Inyo
PO Box Q
Independence, CA 93526

Big Pine Chamber of Commerce
126 S. Main St.
Big Pine, CA 93513

City of Los Angeles
Department of Water & Power
300 Mandich
Bishop, CA 93514